

Message Text

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PAGE 01 TEHRAN 04736 110805Z

15

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 AF-04 ARA-10 EA-13 EUR-10 NSC-07

NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01 L-02 PRS-01

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INFO AMEMBASSY ABU DHABI

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AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY TRIPOLI

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L TEHRAN 4736

LIMDIS

E.O. 11652: GDS

TAGS: ENRG OPEC IR

SUBJECT: ENERGY: CONSORTIUM/NIOC TALKS

SUMMARY: NIOC AND CONSORTIUM HAVE AGREED ON TEMPORARY
REVISED ESTIMATE OF BALANCING MARGIN FROM 6.5 CENTS TO
DOLS 3.50. THIS WILL MEAN ADDITIONAL PAYMENTS (ON PROVISIONAL
BASIS) BY CONSORTIUM MEMBERS OF ALMOST DOLS 3 BILLION, OR
DOLS 1.55 PER BARREL. NIOC MAY ALSO INSIST ON MAXIMUM
PRODUCTION LEVEL OF 6.5 MMB/D AND ON REVISION OF 1973
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PAGE 02 TEHRAN 04736 110805Z

AGREEMENT'S PROVISIONS ON EXPLOITATION OF ASSOCIATED GAS

AND ON STATED QUANTITIES OF CRUDE FOR EXPORT BY NIOC, BUT WILL WAIT FOR FURTHER DEVELOPMENTS IN PARTICIPATION ARRANGEMENTS ACROSS THE GULF BEFORE PRESSING ON LATTER TWO ISSUES. END SUMMARY.

1. CONSORTIUM MEMBERS REPS AND NIOC NEGOTIATED "TEMPORARY AND PROVISIONAL" REVISED ESTIMATE OF "BALANCING MARGIN" WHICH HAS BEEN SIGNED BY AMOUZEGAR AND WHICH WILL MEAN ADDITIONAL PAYMENTS BY CONCORDIUM MEMBERS TO GOI OF ALMOST THREEBILLION RPT THREE BILLION DOLLARS IN 1974. (BALANCING MARGIN IS PER BARREL FEE PROVIDED IN 1973 NIOC/CONSORTIUM AGREEMENT, WHOSE FUNCTION IS TO GIVE IRAN FINANCIAL BENEFITS AT LEAST EQUAL TO WHAT IT WOULD RECEIVE UNDER A PARTICIPATION AGREEMENT.) NEW FIGURE WILL BE DOLS 3.50 PER BARREL, RETROACTIVE TO JANUARY 1, 1974. SINCE THIS FIGURE IS ADDED TO PRODUCTION COST AND ROYALTIES BEFORE CALCULATING PRODUCER GOVERNMENT INCOME TAXES, IT REPRESENTS A PER BARREL PAYMENT OF DOLS 1.575 ABOVE TAX-PAID-COST. PREVIOUS BALANCING MARGIN WAS 6.5 CENTS, REPRESENTING PAYMENT OF 2.925 CENTS ABOVE TAX-PAID-COST. THUS ACTUAL INCREASE IN PER BARREL PAYMENTS BY CONSORTIUM MEMBERS TO GOI WORKS OUT TO DOLS 1.54575. CALCULATION OF COST TO CONSORTIUM MEMBERS OF IRANIAN LIGHT CRUDE (POSTED PRICE OF 11.875) IS AS FOLLOWS:

ROYALTY (0.125 X POSTED PRICE)	1.484	
PLUS PRODUCTION COST	.120	
PLUS BALANCING MARGIN	3.500	
"COST"	5.104	
POSTED PRICE	11.875	
- "COST"	5.104	
NOTIONAL PROFIT	6.771	
X 0.55 EQUALS INCOME TAX	3.724	
PLUS "COST"	5.104	
TAX PAID COST (INCLUDING BALANCING MARGIN)	3.828	

THIS ESTIMATED BALANCING MARGIN IS SUBJECT TO FURTHER REVISION IF REQUIRED BY NEW DEVELOPMENTS OR FINAL OUTCOME IN PARTICIPATION NEGOTIATIONS ELSEWHERE AND WILL BE FINALLY DETERMINED IN RETROSPECTIVE ACCOUNTING EXERCISE NEXT YEAR. CONFIDENTIAL

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PAGE 03 TEHRAN 04736 110805Z

2. DIFFERENCES HAVE DEVELOPED BETWEEN CONSORTIUM MEMBERS AND NIOC ON SEVERAL POINTS IN 1973 PURCHASE/SALES AGREEMENT, MOST NOTABLY ON GAS, PRODUCTION LEVELS AND POSSIBLY ON STATED QUANTITY (SEE SEPTEL ON EMBOFF CONVERSATION WITH PARVIZ MINA). NIOC'S THINKING IS THAT AGREEMENT'S ARRANGEMENT CALLING FOR 50-50 CONSORTIUM/NIOC PARTICIPATION IN GAS PROJECTS SHOULD BE CHANGED TO 60-40

BECAUSE OF NEW PARTICIPATION ARRANGEMENTS ACROSS THE GULF. THIS HAS BECOME SIGNIFICANT BECAUSE NIOC AND CONSORTIUM-OWNED SERVICE COMPANY (OSCO) ARE NOW STUDYING POSSIBILITY OF SYSTEM TO COLLECT ALL ASSOCIATED GAS, REMOVE AT LEAST SOME NGL'S AND REINJECT THE REMAINDER. NIOC'S POSITION ON PRODUCTION LEVELS IS THAT THIS IS DECISION FOR NIOC ALONE, AND NIOC WILL PROBABLY WANT 6.5 MMBD PEAK. NIOC MAY ALSO WANT UPWARD REVISION OF STATED QUANTITY. (THESE ARE SPECIFIC AMOUNTS OF CRUDE FROM EX-AGREEMENT AREA SET ASSIDE UNDER 1973 AGREEMENT FOR EXPORT BY NIOC. THEY RISE BY STEPS FROM 200,000 B/D LAST YEAR TO 300,000 B/D THIS YEAR AND GRADUALLY TO 1.5 MMBD IN 1981.) NIOC APPEARS WILLING FOR THE MOMENT TO DEFER THESE ISSUES PENDING FURTHER DEVELOPMENTS IN PARTICIPATION ARRANGEMENTS IN KUWAIT AND SAUDI ARABIA.
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